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C O N F I D E N T I A L SECTION 01 OF 02 DAKAR 000553

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TAGS: EFIN EINV ETRD SG
SUBJECT: CENTRAL BANK REGULATIONS FORCING CITIBANK TO
REEXAMINE OPERATIONS

DAKAR 00000553 001.4 OF 002

Classified By: ECONOMIC COUNSELOR DOUG MEURS FOR REASONS 1.4 (B) AND (D
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¶1. (C) SUMMARY: Citibank officials are struggling with West African Central Bank (BCEAO) regulatory issues that make it difficult to meet Citibank's universal standard of full compliance with local banking regulations. If these regulations cannot be modified, Citibank may be forced to shed important customers, endangering an already slimmed down portfolio. Given that the local branch is at negative capital levels due to a write-off of Industries Chimiques du Senegal (ICS) debt, the continued presence of Citibank in this part of West Africa appears to be in question. Embassy will conduct business advocacy on these issues with the BCEAO and the Ministry of Finance as appropriate. END SUMMARY.

¶2. (C) On March 1, 2006, Citibank Director General Shirish Apte briefed us on the status of several regulatory problems stemming from Central Bank of West African States oversight of banking activity in Senegal. He indicated that if the regulations cannot be modified, Citibank would be forced to drop substantial parts of its business portfolio in Senegal in order to remain in compliance. Apte concluded that this potential reduction in activity combined with an ongoing write-off of debt incurred by Industries Chimiques du Senegal (ICS) would make it difficult to implement a profitable business model and justify re-capitalization of Citibank's Senegal operations. Consequently, the possibility exists of Citibank drawing down its activities in what was once the hub of Citibank operations in West Africa.

¶3. (C) Apte mentioned three specific business problems: 1) restructuring of ICS debt and prevention of a regional banking crisis if local banks are forced to take provision for ICS debt; 2) BCEAO limits on foreign currency holdings; and 3) mandatory permission required for use of the rediscount window. Apte believed that of the three, ICS was resolvable for Citibank as Citibank has already taken provisions for USD 20 million in ICS arrears. However, he warned that the ICS standoff continues to threaten overall banking activity in Senegal and West Africa.

ICS: CITIBANK SHOULD ORGANIZE LOCAL BANKS

¶4. (C) Apte stated that Citibank was the first local bank to close its books for 2005 according to BCEAO regulations. Accordingly, it had taken provisions for ICS debt and

technically was now at "negative" capital levels. He had told BCEAO executives that while local accounts were safeguarded by Citibank, Inc., the parent company, a decision to refinance the branch is contingent on whether two BCEAO regulatory issues that prevent Citibank from maintaining present levels of business can be resolved.

¶5. (C) Apte noted that BCEAO regulations allow local banks until June 30, 2006 to make a final report and close their books for 2005. Immediate resolution of the approximately USD 180 - 250 million in exposure to ICS debt is not necessary. However, Apte warned, if banks are forced to write-off this debt, most of them will fall to negative capital levels, and some local banks will be unable to recapitalize. Banking activity in Senegal could be severely constrained, creating a regional banking crisis.

¶6. (C) Apte agreed that the local banking community needed to take a more proactive approach to negotiations, undertaking their own examination of ICS accounts and fashioning a restructuring plan. He noted that most parties are hopeful that the Government will provide a sovereign guarantee for medium and long-term ICS debt. Apte discussed a proposed debt restructuring and an eventual sale of the government interest in ICS to the Indian Farmers Fertilizer Cooperative (IFFCO), which owns 20 percent of ICS, and the Indian Government, which holds another seven percent. In doing so, Apte commented, Indian interests would need to preserve capital for restructuring the ICS venture, perhaps putting proportionately more investment funds into strengthening transportation links to the Port of Dakar. Citibank, Apte said, was willing to play a more active role in brokering a comprehensive restructuring plan agreeable to all parties, given its existing business dealings with IFFCO.

BCEAO LIMITS ON FOREX HOLDINGS

¶7. (C) Apte stated that Citibank has asked the BCEAO to

modify present regulations on the size of foreign currency holdings by individual account holders. Currently, those regulations do not exclude aid organizations and NGOs that may maintain substantial foreign currency levels in their accounts for long periods of time. Apte stated that while BCEAO officials have privately expressed willingness to amend the regulations, the Banking Committee has denied Citibank's request. Accordingly, given Citibank's policy of maintaining full compliance with local regulations, Citibank would have to drop several major customers in order to stay in compliance. Citibank plans to raise this issue again with the Banking Commission in Cote d'Ivoire.

BCEAO PROBLEM 2: OVERREGULATION OF THE REDEPOSIT WINDOW
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¶8. (C) Presently, the Central Bank required submission of all lending accounts that are seeking refinancing due to liquidity problems. Apte noted that given ample, if not excessive liquidity in the WAEMU countries, there would not seem to be a pressing necessity to maintain this policy instrument in its present form if it impedes routine transactions with established clients. In response, BCEAO officials have been reluctant to discuss modification of the regulation as they see close regulation of use of the rediscount window as an important tool in forcing banks to screen and classify accounts according to risk. The BCEAO requires 65 percent of borrowers to be classified as low risk, qualifying for preferential interest rates. Historically, close regulation of redeposit activity has been linked to the Bank of France's close scrutiny of BCEAO activity prior to the 1994 devaluation.

¶9. (C) Citibank has submitted requests for refinancing for several large customers, including Shell and France Telecom and has yet to receive permission. Instead, the BCEAO continues to issue letters notifying Citibank that it is not

in compliance, causing potentially serious problems with audits and oversight by Citibank's home office and the U.S. Federal Reserve. If the regulation is not changed, Apte said, to maintain compliance, Citibank would be forced to drop major clients, shrinking its balance sheet by 70 percent.

IMF ON BCEAO REGULATIONS: COMPREHENSIVE REVISION OVERDUE
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¶10. (C) IMF Resident Representative Ousmane Dore provided additional perspective. He noted that BCEAO has a wide range of mandatory ratios that are routinely flouted by local and French banks in West Africa. Dore believes that the BCEAO will ultimately resolve Citibank's issues by making those ratios non-binding indicators. According to Dore, the IMF last year recommended to the BCEAO as a general principle, concentrating on the more pressing problem of over-concentration of risk and a lack of diversity among borrowers. For the IMF, Dore commented, this meant focusing on meeting the Basle II 12 percent capital reserves ratio for emerging markets.

NEXT STEPS

¶11. (C) Apte indicated that he may seek Embassy assistance on communicating the seriousness of these issues, particularly over-regulation of redeposit activity both in Dakar and Abidjan. Citibank,s potential withdrawal from Dakar, while understandable in terms of changes in the local market, would be highly symbolic, given Citibank's long history of introducing banking innovations to West Africa while training generations of local bankers, many of whom have gone on to revitalize local banks or start new financial institutions. Embassy plans to pursue advocacy with BCEAO and the Finance Ministry as appropriate in the months ahead.
JACKSON